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SUBJECT: SCENESETTER FOR CODEL ORTIZ'S FEBRUARY 18-19 VISIT
TO AZERBAIJAN

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11. (SBU) President Aliyev's April 28, 2006 meeting with President Bush laid the foundation for advancing U.S. interests through a strengthened bilateral relationship, and the relationship has never been stronger. As you know, Azerbaijan is a key partner to the U.S. because of its geopolitical situation, its status as a secular, democratizing, Shiite Muslim country, and its key role in ensuring alternative energy supplies. We hope that your visit will build on the momentum of President Aliyev's visit in the three key areas of our cooperation: security, energy and promoting democracy through political and economic reform.

SECURITY: COOPERATION STRONG

12. (U) Azerbaijan is a strong partner in the Global War on Terror. In Iraq, 151 Azerbaijani (Shiite Muslim) infantry troops stand alongside U.S. Marines guarding the Haditha Dam. Azerbaijan is also contributing troops in Afghanistan - and has pledged to double its contingent - and peacekeepers in Kosovo. Azerbaijan provides blanket overflight rights for U.S. aircraft, which allows the U.S. to sustain critical strategic access to sustain our operations in OIF/OEF. Azerbaijan also provides strong information sharing and law enforcement cooperation in fighting terror.

13. (U) In May 2005, Azerbaijan agreed to an Individual Partnership Action Plan (IPAP) with NATO that has promoted good cooperation in a number of areas. The USG and NATO partners should support Azerbaijan's efforts to advance IPAP implementation. In support of Azerbaijan's IPAP goal, the U.S. is working with the Ministry of Defense to make a military airfield "NATO compatible," which could be used by NATO aircraft as a "gas and go" location for operations in Central Asia.

ENERGY: MOVING BEYOND BTC

14. (U) The Baku-Tbilisi-Ceyhan (BTC) first oil ceremonies in Turkey in July 2006 highlighted the outstanding level of U.S.-Azerbaijani cooperation on energy issues and Azerbaijan's growing role as a regional energy producer and transit country. In June 2006, Azerbaijan and Kazakhstan signed an Intergovernmental Agreement (IGA), which will keep enabling Kazakh crude to reach global markets via the BTC pipeline. The completion of the South Caucasus Pipeline lays the groundwork for gas exports to and through Turkey. Technical problems are being resolved, which have delayed initial gasflow westward. Full development of the Shah Deniz

gas field, access to "deep gas" in the ACG field, and a possible new Transcaspian Gas pipeline would allow still higher volumes of Caspian gas to reach international energy markets, further enhancing European energy security. Regional commercial interests, however, complicate Azerbaijan's plans to play a still greater role as a regional energy transit hub.

15. (SBU) At the start of this winter, Gazprom offered Azerbaijan a 2007 gas contract of 1.5 billion cubic meters at USD 235 per thousand cubic meters, vice the 2006 contract of 4.5 billion cubic meters at USD 110 per thousand cubic meters. The GOAJ saw this price increase and volume decrease as Russian pressure to prevent it from helping Georgia with its winter gas supply problems, and also as an effort to stop the export of Azerbaijani gas westward. The GOAJ is proud that it did not submit to what it perceived as Russian political pressure, choosing to supply gas to Georgia from its own reserves and to convert some of its own oil to heavy fuel for use in its electrical power plants at considerable expense.

MANAGING THE OIL BOOM

16. (U) With GDP growth of 36%, Azerbaijan has the fastest growing economy in the world, driven nearly entirely by an unprecedented inflow of energy revenue. The government's economic planning, and the country's judicial, regulatory and banking sectors are weak and ill-prepared to manage this enormous influx of revenue. Corruption is pervasive throughout Azerbaijan. Significant institutional reform and capacity-building will be required to manage the stable growth of Azerbaijan's economy and to prevent Azerbaijan from succumbing to the "oil curse" experienced by many other energy producers. The U.S. is providing technical assistance to help Azerbaijan manage this transition, with technical advisors in the Ministries of Tax and Finance, anti-corruption programs, rule of law programs and a program to help strengthen the GOAJ's consolidated budgeting process. The February 7 inaugural session of the U.S.-Azerbaijan Economic Partnership Commission (EPC) elevated the bilateral economic dialogue, and resulted in eight signed Memorandums of Understanding (MOUs) between the GOAJ and the USG in a range of sectors. Moreover, we believe the WTO accession process is the key vehicle through which we can implement successful economic and political reform that will keep Azerbaijan's development on a stable path.

REFORM: PROGRESS, SETBACKS AND OBSTACLES

17. (SBU) Parliamentary reform, media freedom, and freedom of assembly are key areas for further democratic reform. We have seen some positive signs that Speaker of Parliament Ogtay Asadov, with whom you will meet, hopes to change the Parliament from a Soviet-era rubber stamp body to a more empowered institution. At the February 7 EPC, the GOAJ signed an MOU with the USG on a multimillion dollar parliamentary assistance project. This project, slated to begin on March 1, will provide technical assistance to Parliament over the next few years. Azerbaijan's Members of Parliament (MPs) lack adequate training as well as many of the basic resources vital to their work: adequate office space, computers and Internet access, phone lines, and staff members - although the GOAJ's 2007 budget provides funding for one staff member per MP. Empowering MPs to do their jobs will encourage accountability between the MPs and their constituency, which will be vital to strengthen Parliament as an independent, transparent and democratic institution. Your visit provides an excellent opportunity to deepen engagement with Parliament and with the U.S.-Azerbaijan Inter-Parliamentary Working Group, chaired on the Azerbaijani side by First Lady and MP Mehriban Aliyeva.

18. (U) The past year has seen a decline in media freedom and freedom of assembly in Azerbaijan. There have been three high-profile, physical assaults on opposition newspaper journalists by unidentified assailants. Separately, GOAJ

officials have increasingly resorted to civil and criminal libel suits against opposition-affiliated journalists to silence criticism. In November 2006, the GOAJ temporarily suspended broadcast of Azerbaijan's most influential independent media conglomerate, ANS Television. In 2006 the GOAJ did not approve any applications from opposition parties to hold political rallies. In addition, the GOAJ often detained opposition members who attempted to hold unsanctioned rallies - sometimes preemptively. The GOAJ's decision to allow the opposition Musavat party to hold a January 28 protest in response to the recent price increases was a welcome step, and we continue to press for full restoration of the right to freedom of assembly.

RELATIONS WITH RUSSIA

¶9. (SBU) While the GOAJ has generally taken a cautious approach when dealing with Russia, over the past two months, the GOAJ has veered from its traditional practice of not publicly acknowledging tensions in the bilateral relationship. President Aliyev and other GOAJ officials have publicly criticized Russia's behavior in gas negotiations and questioned the viability of the Commonwealth of Independent States as an organization. Azerbaijan declined to purchase Russian gas, at great expense; arrested and sentenced a Ministry of Defense employee for spying for Russia; protested a Russian law clamping down on foreigner involvement in Russian retail markets; and decided to halt Russian television broadcast as of July - all of which have increased tensions.

¶10. (U) Your visit next week provides an excellent opportunity to advance the USG's agenda in Azerbaijan. We all look forward to welcoming you.
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